

**MORGAN CITY, UTAH
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED JUNE 30, 2005**

**MORGAN CITY, UTAH
YEAR ENDED JUNE 30, 2005**

TABLE OF CONTENTS

<u>FINANCIAL SECTION:</u>	<u>Page</u>
Independent Auditor's Report	1-2
Management Discussion and Analysis	3-7
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet Governmental Funds	10
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds to the Statement of Activities	13
Statement of Net Assets Proprietary Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Net Assets Proprietary Funds	15
Statement of Cash Flows Proprietary Funds	16
Notes to the Financial Statements	17-38
Required Supplementary Information:	
Budgetary Comparison Schedules	
General Fund	39-40
Supplementary Information:	
Combining Financial Statements and Schedules:	
Combining Statement of Net Assets	41
Combining Statement of Revenues, Expenditures, and Changes in Net Assets	42

SINGLE AUDIT SECTION:

Page

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

43-44

Report on Compliance With Requirements Applicable to Each Major Program and Internal
Control Over Compliance in Accordance with OMB Circular A-133

45-46

Schedule of Expenditures of Federal Awards

47-48

Schedule of Findings and Questioned Costs

49-50

Independent Auditor's Report on State of Utah Legal Compliance

51-52



Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
Morgan City, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Morgan City, Utah, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morgan City, Utah, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Morgan City, Utah, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2005, on our consideration of Morgan City, Utah internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and City Council
Morgan City, UT

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 39 through 40, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morgan City, Utah's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Morgan City, Utah. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wood Richards & Associates

October 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

MORGAN CITY
MANAGEMENT'S
DISCUSSION AND ANALYSIS
JUNE 30, 2005

This document is a narrative overview and analysis of the financial activities of Morgan City for the fiscal year ending June 30, 2005. Morgan City management encourages readers to consider the information presented here in conjunction with the financial statements, which follow this section. To help the reader with navigation of this report the city's activities are classified in the following manner: government activities include basic services such as public safety, public works, parks and recreation, cemetery and general government administration, while business-type activities include water, sewer, electric, and sanitation. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City.

Basic Financial Statements

- The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets the community owns the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. Government activities reflect capital assets including infrastructure and long-term liabilities. Business-type activities have long reported capital assets and long-term liabilities.
- The Statement of Activities focuses gross and net costs of city programs and the extent to which such programs rely upon general tax and revenues. This statement summarizes the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on major government funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's major government funds are presented in their own column and the remaining funds are combined into a column titled "Other Government Funds." A budgetary comparison is presented for the general fund, which is the only fund for which a budget is legally adopted. Statements for the City's proprietary funds follow the governmental funds and include net assets, revenue, expenses and changes in net assets, and cash flow.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

Readers desiring additional information on nonmajor funds can find it in the Combining Statements of Nonmajor Fund's section of this report. Completing the financial section of the report are schedules on capital assets and other financial schedules.

The Management's Discussion and Analysis is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

MORGAN CITY
MANAGEMENT'S
DISCUSSION AND ANALYSIS
JUNE 30, 2005

City as a Whole

Government-wide Financial Statements

A condensed version of the Statement of Net Assets at June 30, 2005 and 2004 follows:

	Net Assets at Year-end					
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Cash and investments	\$1,092,048	\$945,472	\$683,765	\$1,132,920	\$1,775,813	\$2,078,392
Other assets	1,643,944	1,662,732	451,118	471,633	2,095,062	2,134,365
Capital assets	1,436,480	1,536,375	3,595,492	3,063,072	5,031,972	4,599,447
Total assets	4,172,472	4,144,579	4,730,375	4,667,625	8,902,847	8,812,204
Other liabilities	45,685	103,837	125,499	220,137	171,184	323,974
Long term outstanding	1,956,462	2,115,390	1,289,208	1,326,452	3,245,670	3,441,842
Total liabilities	2,002,147	2,219,227	1,414,707	1,546,589	3,416,854	3,765,816
Net assets:						
Invested in capital assets,						
Net of related debt	990,480	1,027,375	2,072,583	1,736,620	3,063,063	2,763,995
Restricted	913,819	756,502	648,808	1,121,454	1,562,627	1,877,956
Unrestricted	266,026	141,475	594,277	262,962	860,303	404,437
Total net assets	\$2,170,325	\$1,925,352	\$3,315,668	\$3,121,036	\$5,485,993	\$5,046,388

During the year ended June 30, 2005 there were two significant events that changed the balance of net assets. An explanation of these events follows:

Business-type Activities. The City received a USDA Rural Development loan of \$ 1,214,300 and a USDA Rural Development grant of \$ 500,000 in the previous year to be used for improvements to their culinary water system. During the year 2005, the City spent \$ 604,889 on improvements to their culinary water system leaving a balance of \$ 237,701 to be spent in the future. The City also made upgrades to electrical power lines in the amount of \$ 87,641. These additions are by far the largest change affecting the business-type activities' net assets.

MORGAN CITY
MANAGEMENT'S
DISCUSSION AND ANALYSIS
JUNE 30, 2005

A condensed version of the Statement of Activities follows:

Governmental and Proprietary Activities
For the years ended June 30, 2005 and 2004

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Charges for services	\$ 498,181	\$ 252,400	\$2,525,423	\$2,292,406	\$3,023,604	\$2,544,806
Grants and contributions	135,402	249,230		500,000	135,402	749,230
General revenues						
Taxes	599,828	541,222			599,828	541,222
Interest	112,548	109,149	7,706	9,123	120,254	118,272
Contributions from Dev			7,439	20,466	7,439	20,466
Miscellaneous	135,855	86,546			135,855	86,546
Total revenues	1,481,814	1,238,547	2,540,568	2,821,995	4,022,382	4,060,542
Expenses						
General Government	283,335	236,031			283,335	236,031
Public Safety	265,502	238,527			265,502	238,527
Public Works	543,061	467,521			543,061	467,521
Parks and Recreation	74,016	99,826			74,016	99,826
Cemetery	64,844	87,457			64,844	87,457
Shop	6,083	17,817			6,083	17,817
Miscellaneous		13,414				13,414
Water			458,800	371,813	458,800	371,813
Sewer			288,170	275,002	288,170	275,002
Electric			1,379,019	1,291,521	1,379,019	1,291,521
Sanitation			219,947	256,005	219,947	256,005
Total expenses	1,236,841	1,160,593	2,345,936	2,194,341	3,582,777	3,354,934
Change in net assets	244,973	77,954	194,632	627,654	439,605	705,608
Beginning net assets	1,925,352	1,847,398	3,121,036	2,493,382	5,046,388	4,340,780
Ending net assets	\$2,170,325	\$1,925,352	\$3,315,668	\$3,121,036	\$5,485,993	\$5,046,388

Governmental activities:

For the year ended June 30, 2005 the total revenues for the governmental activities were \$1,481,814. Program revenues totaled \$ 633,583. The major sources of program revenues are building permits, impact fees, and capital grants.

MORGAN CITY
MANAGEMENT'S
DISCUSSION AND ANALYSIS
JUNE 30, 2005

General revenues for the year totaled \$ 848,231. The major sources of general revenues are taxes and interest earnings. Taxes comprise 40.5% of the City's general fund revenues.

Business-type activities:

For the year ended June 30, 2005 the total revenues for the business-type activities were \$2,540,568. Program revenues total \$ 2,525,423. The majority of the revenue is from charges for services of the enterprise funds. The general revenues in the business-type activities consist of \$ 7,439 in contributions from developers and \$ 7,706 in interest income. The water and sewer funds have operating losses and the electric and sanitation funds have operating income. The water fund was the only fund to have a decrease in net assets.

Budgetary Highlights

Over the course of the year the City Council revised the budget one time. At the end of the year there was one individual department with a budget shortfall due to unexpected events. In total, the general fund's expenditures were \$ 168,570 less than was budgeted.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2005 the City had \$ 5,031,972 invested in capital assets, including park and recreation facilities, buildings, roads, bridges, sanitation, and electric and water and sewer lines. This amount represents a net increase (additions, deductions, and depreciation) of \$432,525, or 9.4% over last year.

Capital Assets at Year-end

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 168,343	\$ 168,343	\$ 43,669	\$ 43,669	\$ 212,012	\$ 212,012
Buildings	500,248	500,248	53,187	53,187	553,435	553,435
Improvements	133,796	109,000			133,796	109,000
Equipment	365,365	365,365	434,001	434,001	799,366	799,366
Infrastructure	1,804,164	1,804,164			1,804,164	1,804,164
Utility Systems			5,144,774	4,452,243	5,144,774	4,452,243
Subtotal	2,971,916	2,947,120	5,675,631	4,983,100	8,647,547	7,930,220
Accumulated depreciation	1,535,436	1,410,745	2,080,139	1,920,028	3,615,575	3,330,773
Capital assets, net	\$1,436,480	\$1,536,375	\$3,595,492	\$3,063,072	\$5,031,972	\$4,599,447

The most significant addition to capital assets was the construction of \$ 604,889 on the culinary water project.

MORGAN CITY
MANAGEMENT'S
DISCUSSION AND ANALYSIS
JUNE 30, 2005

Debt Outstanding

At year-end, the City had \$ 3,215,208 in bonds and notes outstanding versus \$ 3,398,452 last year, a decrease of \$ 183,244.

There was a total of \$ 183,244 in debt retired during the year.

Debt Outstanding at Year-end

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Series 2002 Bonds	\$ 446,000	\$ 509,000			\$ 446,000	\$ 509,000
Series 2003 Bonds			1,193,208	1,205,452	1,193,208	1,205,452
Special Assessment Bonds	1,480,000	1,563,000			1,480,000	1,563,000
Water Revenue Bonds			50,000	63,000	50,000	63,000
Sewer Revenue Bonds			46,000	58,000	46,000	58,000
Total debt outstanding	\$1,926,000	\$2,072,000	\$1,289,208	\$1,326,452	\$3,215,208	\$3,398,452

More detailed information on the City's long-term liabilities is presented in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- Property taxes and sales taxes make up 40.5% of general fund revenues.
- Morgan City has established new electric billing rates to be able to provide these services for a substantial increase in population and costs.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Recorder at 48 W Young, Morgan, Utah 84050.

MORGAN CITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash	\$ 1,092,048	\$ 450,064	\$ 1,542,112
Accounts Receivable (Net of Allowance for Uncollectibles)	1,541,788	186,294	1,728,082
Accounts Receivable - Intergovernmental	102,156	-	102,156
Inventory	-	162,337	162,337
Total Current Assets	2,735,992	798,695	3,534,687
Restricted Assets:			
Restricted Cash - Construction	-	233,701	233,701
Noncurrent Assets:			
Water Shares	-	79,687	79,687
Capital Assets:			
Land	168,343	43,669	212,012
Land Improvements	133,796	-	133,796
Buildings	500,248	53,187	553,435
Machinery and Equipment	365,365	434,001	799,366
Utility Systems	-	5,144,774	5,144,774
Infrastructure	1,804,164	-	1,804,164
Less Accumulated Depreciation	(1,535,436)	(2,080,139)	(3,615,575)
Total Capital Assets, Net	1,436,480	3,595,492	5,031,972
Other Assets:			
Unamortized Bond Issue Costs	-	22,800	22,800
Total Assets	4,172,472	4,730,375	8,902,847
LIABILITIES			
Current Liabilities:			
Accounts Payable	22,926	112,784	135,710
Other Accrued Liabilities	22,759	12,715	35,474
Total Current Liabilities	45,685	125,499	171,184
Noncurrent Liabilities			
Due Within One Year	174,000	41,774	215,774
Due in More Than One Year	1,782,462	1,247,434	3,029,896
Total Liabilities	2,002,147	1,414,707	3,416,854
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	990,480	2,072,583	3,063,063
Restricted For:			
Class "C" Roads	152,287	-	152,287
Road Impact Fees	175,183	-	175,183
Park Impact Fees	120,062	-	120,062
Special Improvement District	196,686	-	196,686
Redevelopment	43,783	-	43,783
Perpetual Care	225,818	-	225,818
Water Impact Fees	-	260,048	260,048
Sewer Impact Fees	-	108,525	108,525
Electric Impact Fees	-	46,534	46,534
Construction	-	233,701	233,701
Unrestricted	266,026	594,277	860,303
Total Net Assets	\$ 2,170,325	\$ 3,315,668	\$ 5,485,993

The accompanying notes are an integral part of these financial statements.

**MORGAN CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$ 283,335	\$ 155,489	\$ 2,418	\$ 43,512
Public Safety	265,502	91,029	-	-
Public Works	543,061	156,095	89,472	-
Parks and Recreation	74,016	73,959	-	-
Cemetery	64,844	21,609	-	-
Shop	6,083	-	-	-
Total Governmental Activities	1,236,841	498,181	91,890	43,512
Business-type Activities				
Water	458,800	444,273	-	-
Sewer	288,170	338,273	-	-
Electric	1,379,019	1,508,093	-	-
Sanitation	219,947	234,784	-	-
Total Business-type Activities	2,345,936	2,525,423	-	-
Total Government	\$ 3,582,777	\$ 3,023,604	\$ 91,890	\$ 43,512

General Revenues:

Taxes

Property

Sales and Use

Fee in Lieu

Interest and Investment Earnings

Contributions from Developers

Miscellaneous

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

The accompanying notes are an integral part of these financial statements.

Changes in Net Assets

Governmental Activities	Business- type Activities	Total
\$ (81,916)	\$ -	\$ (81,916)
(174,473)	-	(174,473)
(297,494)	-	(297,494)
(57)	-	(57)
(43,235)	-	(43,235)
(6,083)	-	(6,083)
<u>(603,258)</u>	<u>-</u>	<u>(603,258)</u>
-	(14,527)	(14,527)
-	50,103	50,103
-	129,074	129,074
-	14,837	14,837
<u>-</u>	<u>179,487</u>	<u>179,487</u>
<u>(603,258)</u>	<u>179,487</u>	<u>(423,771)</u>
200,856	-	200,856
356,870	-	356,870
42,102	-	42,102
112,548	7,706	120,254
-	7,439	7,439
135,855	-	135,855
<u>848,231</u>	<u>15,145</u>	<u>863,376</u>
244,973	194,632	439,605
<u>1,925,352</u>	<u>3,121,036</u>	<u>5,046,388</u>
<u>\$ 2,170,325</u>	<u>\$ 3,315,668</u>	<u>\$ 5,485,993</u>

**MORGAN CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2005**

	<u>General</u>	<u>Special Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 649,749	\$ 196,686	\$ 245,613	\$ 1,092,048
Accounts Receivable	7,115	1,504,800	29,873	1,541,788
Accounts Receivable - Intergovernmental	102,100	-	56	102,156
TOTAL ASSETS	<u>\$ 758,964</u>	<u>\$ 1,701,486</u>	<u>\$ 275,542</u>	<u>\$ 2,735,992</u>
LIABILITIES				
Accounts Payable	\$ 22,926	\$ -	\$ -	\$ 22,926
Deferred Revenue	-	1,504,800	-	1,504,800
Other Accrued Liabilities	22,759	-	-	22,759
TOTAL LIABILITIES	<u>45,685</u>	<u>1,504,800</u>	<u>-</u>	<u>1,550,485</u>
FUND BALANCES				
Reserved for:				
Class C Roads	152,287	-	-	152,287
Road Impact Fees	175,183	-	-	175,183
Park Impact Fees	120,062	-	-	120,062
Special Improvement District	-	196,686	-	196,686
Redevelopment Agency	-	-	43,783	43,783
Perpetual Care	-	-	225,818	225,818
Unreserved	265,747	-	5,941	271,688
TOTAL FUND BALANCES	<u>713,279</u>	<u>196,686</u>	<u>275,542</u>	<u>1,185,507</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 758,964</u>	<u>\$ 1,701,486</u>	<u>\$ 275,542</u>	<u>\$ 2,735,992</u>

The accompanying notes are an integral part of these financial statements.

**MORGAN CITY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Amounts reported for governmental activities in the
statement of net assets are different because:

Total fund balances--total governmental funds	\$ 1,185,507
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the fund fund financial statements.	1,436,480
Deferred revenues reported in Governmental Funds Balance Sheet includes a special assessment receivable. The balance was deferred because funds were not available to pay for current period expenditures.	1,504,800
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements. Those liabilities consist of:	
Series 2002 Bonds	(446,000)
Special Assessment Bonds	(1,480,000)
Compensated Absences	<u>(30,462)</u>
Net assets of governmental activities	<u>\$ 2,170,325</u>

The accompanying notes are an integral part of these financial statements.

MORGAN CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 552,854	\$ -	\$ 46,974	\$ 599,828
Licenses and Permits	155,489	-	-	155,489
Intergovernmental	135,402	-	-	135,402
Charges for services	41,706	-	15,266	56,972
Fines	55,978	-	-	55,978
Other Revenues	320,673	210,162	5,510	536,345
Total Revenues	<u>1,262,102</u>	<u>210,162</u>	<u>67,750</u>	<u>1,540,014</u>
EXPENDITURES				
Current Operating:				
General Government	249,568	11,659	1,576	262,803
Public Safety	265,502	-	-	265,502
Public Works	277,729	-	60,000	337,729
Parks and Recreation	70,383	-	-	70,383
Cemetery	64,555	-	-	64,555
Shop	6,083	-	-	6,083
Debt Service:				
Principal	63,000	83,000	-	146,000
Interest	11,834	94,356	11,834	118,024
Capital Outlay	-	-	24,795	24,795
Total Expenditures	<u>1,008,654</u>	<u>189,015</u>	<u>98,205</u>	<u>1,295,874</u>
Excess of Revenues Over (Under) Expenditures	253,448	21,147	(30,455)	244,140
OTHER FINANCING SOURCES (USES)				
Transfers-In	-	-	-	-
Transfers-Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	253,448	21,147	(30,455)	244,140
Fund Balances at Beginning of Year	459,831	175,539	305,997	941,367
Fund Balances at End of Year	<u>\$ 713,279</u>	<u>\$ 196,686</u>	<u>\$ 275,542</u>	<u>\$ 1,185,507</u>

The accompanying notes are an integral part of these financial statements.

MORGAN CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balance, total governmental funds \$ 244,140

Amounts reported for governmental activities
in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital Outlays	24,795	
Depreciation Expense	<u>(124,691)</u>	(99,896)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year-end. (58,199)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Decrease in compensated absences 12,928

Repayment of debt principal and compensated absences is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 146,000

Change in net assets of governmental activities \$ 244,973

The accompanying notes are an integral part of these financial statements.

**MORGAN CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005**

	<u>Water</u>	<u>Sewer</u>
ASSETS		
Current Assets:		
Cash	\$ 37,514	\$ 90,034
Accounts Receivable (Net)	27,262	25,730
Inventory	36,915	-
Total Current Assets	<u>101,691</u>	<u>115,764</u>
Restricted Assets:		
Restricted Cash - Construction	233,701	-
Noncurrent Assets:		
Water Shares	79,687	-
Capital Assets:		
Land	6,318	19,831
Buildings	7,125	7,125
Utility Systems	2,931,453	1,159,878
Machinery and Equipment	111,422	91,027
Less Accumulated Depreciation	<u>(847,959)</u>	<u>(761,207)</u>
Total Capital Assets, Net	<u>2,208,359</u>	<u>516,654</u>
Other Assets:		
Unamortized Bond Issue Costs	22,800	-
Total Assets	<u><u>\$ 2,646,238</u></u>	<u><u>\$ 632,418</u></u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 10,535	\$ -
Customer Deposits	-	-
Current Portion of Long-Term Obligations	27,774	14,000
Total Current Liabilities	<u>38,309</u>	<u>14,000</u>
Noncurrent Liabilities:		
Long-Term Obligations, Net of Current Portion	1,215,434	32,000
Total Liabilities	<u>1,253,743</u>	<u>46,000</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	731,450	470,654
Restricted for Impact Fee	260,048	108,525
Restricted for Construction	233,701	-
Unrestricted	167,296	7,239
Total Net Assets	<u>1,392,495</u>	<u>586,418</u>
Total Liabilities and Net Assets	<u><u>\$ 2,646,238</u></u>	<u><u>\$ 632,418</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Electric</u>	<u>Sanitation</u>	<u>Total</u>
\$ 297,942	\$ 24,574	\$ 450,064
111,717	21,585	186,294
125,422	-	162,337
<u>535,081</u>	<u>46,159</u>	<u>798,695</u>
-	-	233,701
-	-	79,687
17,520	-	43,669
31,812	7,125	53,187
1,053,443	-	5,144,774
224,517	7,035	434,001
<u>(462,573)</u>	<u>(8,400)</u>	<u>(2,080,139)</u>
<u>864,719</u>	<u>5,760</u>	<u>3,675,179</u>
-	-	22,800
<u>\$ 1,399,800</u>	<u>\$ 51,919</u>	<u>\$ 4,730,375</u>
\$ 87,062	\$ 15,187	\$ 112,784
12,715	-	12,715
-	-	41,774
<u>99,777</u>	<u>15,187</u>	<u>167,273</u>
-	-	1,247,434
<u>99,777</u>	<u>15,187</u>	<u>1,414,707</u>
864,719	5,760	2,072,583
46,534	-	415,107
-	-	233,701
<u>388,770</u>	<u>30,972</u>	<u>594,277</u>
<u>1,300,023</u>	<u>36,732</u>	<u>3,315,668</u>
<u>\$ 1,399,800</u>	<u>\$ 51,919</u>	<u>\$ 4,730,375</u>

MORGAN CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Water</u>	<u>Sewer</u>
Operating Revenues:		
Charges for Services	\$ 295,975	\$ 266,679
Other Operating Revenues	<u>20,924</u>	<u>1,192</u>
Total Operating Revenues	316,899	267,871
Operating Expenses:		
Personnel Services	135,136	119,712
Contractual Services	-	-
Purchases water/treatment/power/refuse	-	-
Supplies	77,858	58,340
Professional Services	57,069	36,874
Miscellaneous	14,191	23,963
Equipment and Maintenance	47,745	8,169
Depreciation	69,866	36,178
Amortization - Deferred Charge	<u>600</u>	<u>-</u>
Total Operating Expenses	<u>402,465</u>	<u>283,236</u>
Operating Income (Loss)	(85,566)	(15,365)
Nonoperating Revenues (Expenses)		
Impact Fees	104,824	44,702
Connection Fees	22,550	25,700
Interest Revenue	4,952	1,873
Interest Expense	<u>(56,335)</u>	<u>(4,934)</u>
Total Nonoperating Revenues (Expenses)	<u>75,991</u>	<u>67,341</u>
Net Income (Loss) Before Contributions	(9,575)	51,976
Capital Contributions	-	-
Change in Net Assets	(9,575)	51,976
Total Net Assets - Beginning	<u>1,402,070</u>	<u>534,442</u>
Total Net Assets - Ending	<u><u>\$ 1,392,495</u></u>	<u><u>\$ 586,418</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Electric</u>	<u>Sanitation</u>	<u>Total</u>
\$ 1,337,939	\$ 231,600	\$ 2,132,193
61,838	3,184	87,138
<u>1,399,777</u>	<u>234,784</u>	<u>2,219,331</u>
230,233	-	485,081
-	66,666	66,666
859,703	152,290	1,011,993
121,359	-	257,557
16,265	-	110,208
30,529	405	69,088
67,447	-	123,361
53,483	586	160,113
-	-	600
<u>1,379,019</u>	<u>219,947</u>	<u>2,284,667</u>
20,758	14,837	(65,336)
56,955	-	206,481
51,361	-	99,611
866	15	7,706
-	-	(61,269)
<u>109,182</u>	<u>15</u>	<u>252,529</u>
129,940	14,852	187,193
7,439	-	7,439
137,379	14,852	194,632
<u>1,162,644</u>	<u>21,880</u>	<u>3,121,036</u>
<u>\$ 1,300,023</u>	<u>\$ 36,732</u>	<u>\$ 3,315,668</u>

**MORGAN CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Water</u>	<u>Sewer</u>
Cash Flows from Operating Activities		
Cash Received From Customers	\$ 320,006	\$ 268,083
Cash Paid to Suppliers	(222,693)	(127,346)
Cash Paid to Employees	(135,136)	(119,712)
Net Cash Provided (Used) by Operating Activities	<u>(37,823)</u>	<u>21,025</u>
Cash Flows from Noncapital Financing Activities		
Transfers In	-	-
Transfers Out	-	-
Net Cash Used in Noncapital Financing Activities	<u>-</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and Construction of Capital Assets	(604,889)	-
Principal Payments - Bonds	(25,244)	(12,000)
Interest Paid	(56,335)	(4,934)
Impact Fees Collected	104,824	44,702
Connection Fees Collected	22,550	25,700
Contributions From Developers	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(559,094)</u>	<u>53,468</u>
Cash Flows from Investing Activities		
Interest on Investments	4,952	1,873
Net Cash Provided by Investing Activities	<u>4,952</u>	<u>1,873</u>
Net Increase (Decrease) in Cash	(591,965)	76,366
Cash - July 1	<u>863,180</u>	<u>13,668</u>
Cash - June 30	<u>\$ 271,215</u>	<u>\$ 90,034</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating Income (Loss)	\$ (85,566)	\$ (15,365)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		
Depreciation	69,866	36,178
Amortization	600	-
Changes in Assets and Liabilities:		
Accounts Receivable	3,107	212
Inventory	(9,393)	-
Accounts Payable	(16,437)	-
Customer Deposits	-	-
Net Cash Provided by Operating Activities	<u>\$ (37,823)</u>	<u>\$ 21,025</u>

The accompanying notes are an integral part of these financial statements.

<u>Electric</u>	<u>Sanitation</u>	<u>Total</u>
\$ 1,425,624	\$ 235,606	\$ 2,249,319
(1,161,706)	(230,482)	(1,742,227)
(230,233)	-	(485,081)
<u>33,685</u>	<u>5,124</u>	<u>22,011</u>

-	-	-
-	-	-
-	-	-

(89,001)	-	(693,890)
-	-	(37,244)
-	-	(61,269)
56,955	-	206,481
51,361	-	99,611
7,439	-	7,439
<u>26,754</u>	<u>-</u>	<u>(478,872)</u>

<u>866</u>	<u>15</u>	<u>7,706</u>
<u>866</u>	<u>15</u>	<u>7,706</u>

61,305	5,139	(449,155)
<u>236,637</u>	<u>19,435</u>	<u>1,132,920</u>
<u>\$ 297,942</u>	<u>\$ 24,574</u>	<u>\$ 683,765</u>

\$ 20,758	\$ 14,837	\$ (65,336)
-----------	-----------	-------------

53,483	586	160,113
-	-	600

25,847	822	29,988
680	-	(8,713)
(67,808)	(11,121)	(95,366)
<u>725</u>	<u>-</u>	<u>725</u>

<u>\$ 33,685</u>	<u>\$ 5,124</u>	<u>\$ 22,011</u>
------------------	-----------------	------------------

MORGAN CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City operates under a Council/Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), public utilities (water, sewer, electric, sanitation), highways and streets, social services, culture-recreation, public improvements, planning and zoning, economic redevelopment, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable that do not conflict with or contradict GASB pronouncements). Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In defining the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board (GASB).

B. Basic Financial Statements

The City's basic financial statements consist of the government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

Statement of Net Assets - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end.

Statement of Activities - The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function.

MORGAN CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basic Financial Statements (continued)

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts.

There are three categories of funds: governmental, proprietary, and fiduciary. The following fund types are used by the City:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following describes the major governmental funds of the City:

General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue fund is used to account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

MORGAN CITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Fund Accounting (continued)

The following describes the nonmajor governmental funds of the City:

Capital Projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

Redevelopment fund helps eliminate "blighted" areas within the designated project area. The City receives tax increment revenue for the fund. The Redevelopment Fund is a special revenue fund.

Perpetual Care fund is an expendable fund for cemetery care.

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

Proprietary Funds are required to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's various departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The following is a description of the proprietary funds of the City.

Enterprise Funds account for those operations that are financed and operated in a manner similar to private business enterprises or where the governing body had decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City's enterprise funds include the water fund, sewer fund, electric fund, and the sanitation fund.

MORGAN CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

Government-wide financial statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled utility services which are accrued. Expenses are recognized at the time liability is incurred.

Fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available").

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period. The government considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, and interest are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

3. Receivables and Payables

In the government-wide statements, receivables consist of all revenues earned at year end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

4. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Restricted Assets

Restricted assets include cash of the water fund that is legally restricted as to its use. On September 9, 2003 the City issued \$1,214,300 in bonds and received a \$500,000 USDA grant for a culinary water project. The City also participated by contributing \$149,825. The amount unexpended of \$233,701 is restricted for the culinary water project.

MORGAN CITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Equity (continued)

6. Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$100,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	50
Utility Systems	40
Land Improvements	30
Infrastructure	20
Machinery & Equipment	7

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

7. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay is accrued when incurred and is reported as a liability. Amounts not expected to be liquidated with expendable available financial resources are reported in the Statement of Net Assets as a noncurrent liability.

MORGAN CITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Equity (continued)

8. Long-term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of notes payable and bonds payable.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

9. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the City's policy to first apply restricted resources rather than unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

MORGAN CITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Equity (continued)

9. Equity Classifications (continued)

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

10. Interfund Transactions

Interfund services provided and used are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursement, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as non-operating transfers.

11. Property Tax

Real property taxes are collected by the County Treasurer and remitted to the City after collection. Taxes are due and payable on November 1st and delinquent after 12 o'clock noon on November 30th of each year. The tax levy is established by June 15th with a lien date of January 1st. Property tax revenue is not recognized when levied, because it is not expected to be collected within 60 days after the end of the fiscal year.

12. Operating Revenues and Expenses

Operating revenues and expenses in the proprietary funds consist of those revenues that result from the ongoing principal operations of the City. Operating revenues consist of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

MORGAN CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget Information

Annual budgets are prepared and adopted in accordance with the "Uniform Fiscal Procedures Act for Utah cities" by the Morgan City Municipal Council on or before June 15th for the following fiscal year, which begins on July 1. Budgets may be increased by resolution of the Municipal Council at any time during the year, following a public hearing. Budgets are adopted at sub-department levels; however budget amendments by resolution are generally required only if the department desires to exceed its total budget appropriation.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

1. On or before May 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to the formal adoption of the budget the City Council will hold budget workshop meetings, which are open to the public.
3. Prior to June 15th the City Council sets a date for a public budget hearing at which time taxpayers' comments are heard. Copies of the proposed budget are made available for public inspection 10 days prior to the budget hearing. At the conclusion of the budget hearing the budget, as amended, is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Enterprise Funds.
5. Budgets for the General Fund are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Budgets for the proprietary fund types are prepared using the accrual basis of accounting except that depreciation for all proprietary fund types is not budgeted. Budgeted amounts are as originally adopted, or as amended by the City Council during the 2004/2005 fiscal year.
6. Unencumbered budget appropriations lapse at the end of the fiscal year.

MORGAN CITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

B. Fund Equity Restrictions

Reserve for Perpetual Care - The City Council passed an ordinance providing for perpetual care fees to be set aside for perpetual care maintenance at the City cemetery.

Reserve for Redevelopment - Amounts generated in the redevelopment fund are reserved to be spent to promote urban renewal and economic development.

Reserve for Impact Fees - The City Council passed an ordinance providing for specific impact fees on all new construction. Impact fees include fees for roads, parks, administration, water, sewer, and electric. These fees are to be reserved for current and future costs to help defray a portion of the costs that naturally result from increased development.

Reserve for Class "C" Road - Reserve required to be kept that accounts for the receipt of class "C" road revenues and expenditures.

Reserve for Special Improvement District - Amounts generated in the special improvement district are reserved to be spent on capital outlay and debt service within the district.

Reserve for Construction - During the 2003/2004 fiscal year the City received a grant and a bond for the purpose of a culinary water project. The unexpended amount is reserved for construction on the culinary project.

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS

A. Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed as "Cash and Cash Equivalents" which also includes cash accounts that are separately held by some of the City's funds. Deposits are not collateralized nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. This Act requires the depositing of city funds in a "qualified depository".

MORGAN CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

A. Deposits and Investments (continued)

The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial credit risk – Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2005, \$540,731 of the City's bank balances of \$640,731 was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

MORGAN CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

A. Deposits and Investments (continued)

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF Investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)				Quality Ratings
		Less than 1	1-5	6-10	More than 10	
PTIF Investments	1,176,374	1,176,374	-	-	-	not rated
	1,176,374	1,176,374	-	-	-	

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by investing mainly in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the City's investments are noted in the previous table.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar held in the portfolio. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk (investments) – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

A. Deposits and Investments (continued)

The City's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at June 30, 2005, are as follows:

Cash on hand and on deposit:	
Cash on deposit	599,439
PTIF investment	<u>1,176,374</u>
Total cash and investments	<u>\$ 1,775,813</u>

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash	\$ 1,542,112
Restricted Cash - Construction	<u>233,701</u>
Total cash and investments	<u>\$ 1,775,813</u>

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

B. Accounts Receivable

Accounts receivable for the City, including the applicable allowance for uncollectible accounts at June 30, 2005, are as follows:

Governmental Activities:	General	Special Revenue	Perpetual Care	Redevelopment	Total
Receivables:					
Accounts	\$ 7,115	\$ -	\$ 29,873	\$ -	\$ 36,988
Special Assessment	-	1,504,800	-	-	1,504,800
Taxes	102,100	-	-	56	102,156
Gross receivables	109,215	1,504,800	29,873	56	1,643,944
Less: Allowance for uncollectibles	-	-	-	-	-
Net total receivables	<u>\$ 109,215</u>	<u>\$1,504,800</u>	<u>\$ 29,873</u>	<u>\$ 56</u>	<u>\$1,643,944</u>

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

B. Accounts Receivable (continued)

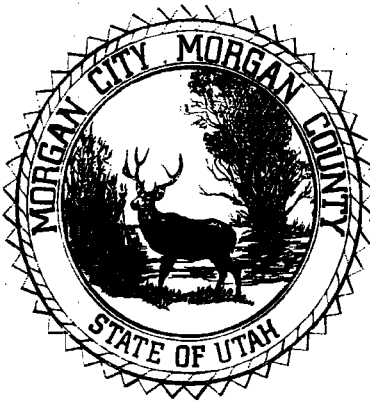
Business-type Activities:	Water	Sewer	Electric	Sanitation	Total
Receivables:					
Accounts	\$ 28,233	\$ 26,564	\$ 132,479	\$ 22,604	\$ 209,880
Gross receivables	28,233	26,564	132,479	22,604	209,880
Less: Allowance for uncollectibles	(971)	(834)	(20,762)	(1,019)	(23,586)
Net total receivables	<u>\$ 27,262</u>	<u>\$ 25,730</u>	<u>\$ 111,717</u>	<u>\$ 21,585</u>	<u>\$ 186,294</u>

The City had no interfund receivables as of June 30, 2005.

C. Capital Assets

A summary of changes in capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 168,343	\$ -	\$ -	\$ 168,343
Total capital assets, not being depreciated	168,343	-	-	168,343
Capital assets, being depreciated				
Land Improvements	109,000	24,796	-	133,796
Buildings	500,248	-	-	500,248
Machinery & Equipment	365,365	-	-	365,365
Infrastructure	1,804,164	-	-	1,804,164
Total capital assets, being depreciated	2,778,777	24,796	-	2,803,573
Accumulated Depreciation for:				
Land Improvements	(36,172)	(3,923)	-	(40,095)
Buildings	(98,852)	(8,455)	-	(107,307)
Machinery & Equipment	(317,713)	(22,105)	-	(339,818)
Infrastructure	(958,008)	(90,208)	-	(1,048,216)
Total accumulated depreciation	(1,410,745)	(124,691)	-	(1,535,436)
Total capital assets, being depreciated, net	1,368,032	(99,895)	-	1,268,137
Governmental activities capital assets, net	<u>\$1,536,375</u>	<u>\$ (99,895)</u>	<u>\$ -</u>	<u>\$1,436,480</u>



Morgan City Corporation

90 West Young Street P.O. Box 1085 Morgan, Utah 84050 (801) 829-3461

November 3, 2005

Utah State Auditor
Utah State Capitol Complex
East Office Building, Suite E-310
PO Box 142310
Salt Lake City, Utah 84114-2310

Dear State Auditor,

The following is a list of answers regarding the recommendations that were noted by our Auditors, Wood, Richards, & Associates.

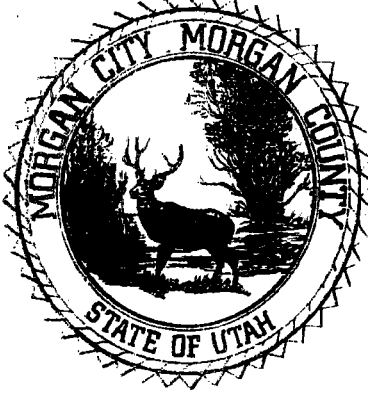
State Legal Compliance

- (1) The city opens their budgets as needed late in the year to make adjustments. The budget referred to was the law enforcement budget and the amount it was in excess was approximately \$200. We contract with Morgan County for these services and the increase in billing was not expected. The city will continue to watch the department budgets closely and make adjustments as needed.
- (2) The amount in the general fund that is over the 18% allowed is \$53,000. This amount will be budgeted and spent in the current year's budgets.
- (3) This item has been an ongoing project for a number of years. The city continues to work on completing the analysis for the sewer department impact fees. We worked diligently to complete the study by the end of this fiscal year, but this did not occur. We have contracted with Susie Becker who represents Lewis & Young and are in the final phase of having this completed. We understand this has been in the management letter for the past several years and we know this must be a priority and be completed. Please feel free to contact the city or Susie Becker @596-0700 for any further information you need on this matter.
- (4) The city has taken steps to increase the amount of the treasurer fidelity bond to the required amount.

If you have any questions about the above matters, or need any further information please feel free to contact us.

Sincerely,

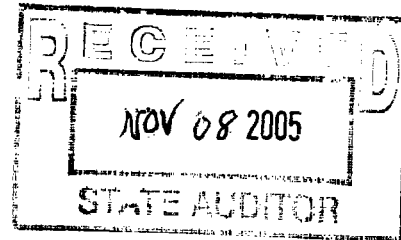
Y. Marie Heiner
Mayor



Morgan City Corporation

90 West Young Street P.O. Box 1085 Morgan, Utah 84050 (801) 829-3461


November 3, 2005



To Whom It May Concern:

Enclosed is a copy of the Morgan City 2004-2005 fiscal year audit. Please contact me if you have any questions or need any further information.

Sincerely,
MORGAN CITY CORPORATION


Julie A. Lee
City Recorder

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

C. Capital Assets (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 43,669	\$ -	\$ -	\$ 43,669
Total capital assets, not being depreciated	43,669	-	-	43,669
Capital assets, being depreciated				
Buildings	53,187	-	-	53,187
Machinery & Equipment	434,001	-	-	434,001
Systems	4,452,243	692,531	-	5,144,774
Total capital assets, being depreciated	4,939,431	692,531	-	5,631,962
Accumulated Depreciation for:				
Buildings	(29,435)	(712)	-	(30,147)
Machinery & Equipment	(360,407)	(17,680)	-	(378,087)
Systems	(1,530,184)	(141,721)	-	(1,671,905)
Total accumulated depreciation	(1,920,026)	(160,113)	-	(2,080,139)
Total capital assets, being depreciated, net	3,019,405	532,418	-	3,551,823
Business-type activities capital assets, net	<u>\$3,063,074</u>	<u>\$532,418</u>	<u>\$ -</u>	<u>\$3,595,492</u>

Depreciation Expense was charged to functions/departments of the primary government as follows:

Governmental Activities:

General Government	9,999
Public Safety	-
Public Works	110,770
Parks and Recreation	3,633
Cemetery	289
Shop	-
Total Depreciation Expense	<u>\$ 124,691</u>

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

C. Capital Assets (continued)

Business-type Activities:

Water Fund	69,866
Sewer Fund	36,178
Electric Fund	53,483
Sanitation Fund	586
	<hr/>
Total Depreciation Expense	<u>\$ 160,113</u>

D. Interfund Transfers

There were no interfund transfers made during the fiscal year.

E. Long-Term Liabilities

Lease Revenue Bonds. The government issued a series 2002 bond to provide funds for the construction of a new municipal building.

Series 2002 bond issued for municipal building construction. Interest is paid on June 1 and December 1, while principal is paid on June 1 of each year. Bond matures June 1, 2012. The interest rate is 4.65%

\$ 446,000

The annual requirement to amortize the obligation is as follows:

Year Ended June 30,	Series 2002 Bonds 4.65%		
	Principal	Interest	Total
2006	\$ 66,000	\$ 20,739	\$ 86,739
2007	69,000	17,670	86,670
2008	73,000	14,462	87,462
2009	76,000	11,067	87,067
2010	79,000	7,533	86,533
2011	83,000	3,860	86,860
	<hr/>	<hr/>	<hr/>
Totals	<u>\$ 446,000</u>	<u>\$ 75,331</u>	<u>\$ 521,331</u>

MORGAN CITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

E. Long-Term Liabilities (continued)

Special Assessment Bonds. Special Assessment bonds are repaid through collection of assessments against property owners who benefited from capital improvements made as a result of the establishment of the Special Improvement District. The City is obligated to pay Special Assessment bonds and interest to the following extent:

Year Ended June 30,	Special Assessment Bonds		
	6.05%		
	Principal	Interest	Total
2006	\$ 88,000	\$ 89,540	\$ 177,540
2007	93,000	84,216	177,216
2008	98,000	78,590	176,590
2009	104,000	72,661	176,661
2010	111,000	66,369	177,369
2011-2015	662,000	222,822	884,822
2016-2017	324,000	29,706	353,706
Totals	\$ 1,480,000	\$ 643,904	\$2,123,904

Revenue Bonds. The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Both Revenue Bonds are paid on June 1. The interest rates are 10.98%. Revenue bonds outstanding at year end are as follows:

Year Ended June 30,	Water Revenue Bond		
	10.98%		
	Principal	Interest	Total
2006	\$ 15,000	\$ 4,559	\$ 19,559
2007	17,000	2,559	19,559
2008	18,000	1,559	19,559
Totals	\$ 50,000	\$ 8,677	\$ 58,677

MORGAN CITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

E. Long-Term Liabilities (continued)

Year Ended June 30,	Sewer Revenue Bond 10.98%		
	Principal	Interest	Total
2006	\$ 14,000	\$ 3,994	\$ 17,994
2007	15,000	2,994	17,994
2008	17,000	994	17,994
Totals	\$ 46,000	\$ 7,982	\$ 53,982

Water Revenue Bond, Series 2003. The government issued a series 2003 bond to provide funds for improvements and construction of a culinary water project.

Series 2003 bonds were issued for the culinary water project. Both Interest and principal are paid on the 11th of each month. The bonds mature on August 11, 2043. The interest rate is 4.25%

\$ 1,193,208

The annual requirement to amortize the obligation is as follows:

Year Ended June 30,	Series 2003 Bonds 4.25%		
	Principal	Interest	Total
2006	\$ 12,774	\$ 50,478	\$ 63,252
2007	13,328	49,924	63,252
2008	13,905	49,347	63,252
2009	14,508	48,744	63,252
2010	15,154	48,098	63,252
2011-2015	86,210	230,050	316,260
2016-2020	106,581	209,679	316,260
2021-2025	131,767	184,493	316,260
2026-2030	162,904	153,356	316,260
2031-2035	201,398	114,862	316,260
2036-2040	248,990	67,270	316,260
2041-2043	185,689	14,293	199,982
Totals	\$ 1,193,208	\$ 1,220,594	\$ 2,413,802

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

E. Long-Term Liabilities (continued)

Changes in Long-Term Liabilities - During the year, the following changes occurred in long-term liabilities for the governmental activities:

Governmental Activities:	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Lease Revenue Bonds	\$ 509,000	\$ -	\$ (63,000)	\$ 446,000	\$ 66,000
Special Assessment Bonds	1,563,000	-	(83,000)	1,480,000	88,000
Total Debt	2,072,000	-	(146,000)	1,926,000	154,000
Compensated Absences	43,390	28,588	(41,516)	30,462	20,000
Total Governmental Activities	\$2,115,390	\$ 28,588	\$ (187,516)	\$1,956,462	\$ 174,000

Changes in Long-Term Liabilities - During the year, the following changes occurred in long-term liabilities for the business-type activities:

Business-type Activities:	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Water Revenue Bonds	63,000	-	(13,000)	50,000	15,000
Sewer Revenue Bonds	58,000	-	(12,000)	46,000	14,000
Series 2003 Bonds	1,205,452	-	(12,244)	1,193,208	12,774
Total Debt	1,326,452	-	(37,244)	1,289,208	41,774
Total Business-type Activities	\$1,326,452	\$ -	\$ (37,244)	\$1,289,208	\$ 41,774

F. Redevelopment Agency

The Morgan Redevelopment Agency has one project titled the Commercial Street Redevelopment Project. The Commercial Street Redevelopment Project collected \$46,974 in tax increment monies in the fiscal year ended June 30, 2005. This project did not have any outstanding debt at June 30, 2005, nor did it pay any taxes to a taxing agency.

The actual expenditures for the project consisted of the following:

1. \$60,000 for the installation of public utilities
2. \$1,576 for administrative costs of the project

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

IV. OTHER INFORMATION

A. Retirement System

Plan Description - Morgan City Corporation contributes to the Local Government Noncontributory Retirement System, which is for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information of the Local Governmental Contributory Retirement System and Local Government Noncontributory Retirement System. The Utah State Retirement Systems is on a calendar year which ends December 31, 2004. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy - Plan members in Local Government Noncontributory Retirement System members are required to contribute 0.0% of their annual covered salary (all or part may be paid by the employer for the employee) and Morgan City Corporation is required to contribute 11.09% of their annual covered salary from July 2004 through June 2005. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The contributions by Morgan City Corporation to the Local Government Noncontributory Retirement System for June 30, 2005, 2004 and 2003 were \$56,878, \$44,784, and \$39,524 respectively. The contributions were equal to the required contributions for each year and were paid by the due dates or within 30 days thereafter.

The Utah State Retirement Board does not segregate the assets and vested benefits of the individual plans by unit within the system. Therefore, it is not possible to determine the portion of the assets and vested benefits or unfunded liabilities of the plans that are applicable to Morgan City Corporation.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

IV. OTHER INFORMATION (continued)

A. Retirement System (continued)

The City also sponsors a defined contribution retirement plan under Internal Revenue Code 401(K) which is administered by the Utah Retirement Systems. The Plan covers all city employees. Participants are fully vested. The 401(K) plan is an elective deferral plan. The City does not make contributions on behalf of the employees. All city employees may contribute a minimum of ½ of 1% up to a maximum of 25% of gross income. The participants' contributions for the year ended June 30, 2005 totaled \$13,128.

The City does not participate in a 457 Deferred Compensation Plan.

B. Deferred Revenue

Deferred revenue are those revenues where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Morgan City has deferred revenue as of June 30, 2005 as follows:

Special Revenue - Special Assessments	\$1,504,800
---------------------------------------	-------------

C. Commitments

Business Revenue Sharing Agreement. The City entered into a business revenue sharing agreement where the agreement calls for the share of increased sales tax payments over base year amounts until the amount of \$185,781 is paid, with interest of 7.75%. In the event the reimbursement outlined is not made within fifteen (15) years the obligation shall be deemed paid, and no other recourse for payment shall be pursued by Owner/Developer against the City.

D. Risk Management – Claims and Judgments

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters.

The City maintains commercial insurance for all major programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the prior year.

MORGAN CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

IV. OTHER INFORMATION (continued)

E. Stewardship, Compliance, and Accountability

Expenditures over budget:

The following departments in the General Fund incurred expenditures in excess of budget:

	<u>Budget</u>	<u>Actual</u>	<u>Actual Over Budget</u>
Police Department	162,450	162,672	222

**REQUIRED
SUPPLEMENTARY
INFORMATION**

MORGAN CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Current Year Property Taxes	\$ 160,693	\$ 160,693	\$ 150,843	\$ (9,850)
Redemptions	2,000	2,000	3,039	1,039
Fee in Lieu	36,000	36,000	42,102	6,102
Sales and Use Taxes	370,000	370,000	356,870	(13,130)
	<u>568,693</u>	<u>568,693</u>	<u>552,854</u>	<u>(15,839)</u>
Licenses and Permits:				
Business Licenses	5,000	5,000	6,468	1,468
Building Permits	75,000	75,000	147,665	72,665
Other Licenses	1,100	1,100	1,356	256
	<u>81,100</u>	<u>81,100</u>	<u>155,489</u>	<u>74,389</u>
Intergovernmental:				
Grants	41,556	41,556	43,512	1,956
Class "C" Road Fund Allotment	100,000	100,000	89,472	(10,528)
State Liquor Allotment	2,500	2,500	2,418	(82)
	<u>144,056</u>	<u>144,056</u>	<u>135,402</u>	<u>(8,654)</u>
Charges for Services:				
Ambulance	35,000	35,000	35,051	51
Parks	500	500	262	(238)
Cemetery	10,500	10,500	6,393	(4,107)
	<u>46,000</u>	<u>46,000</u>	<u>41,706</u>	<u>(4,294)</u>
Fines and Forfeitures	<u>30,000</u>	<u>30,000</u>	<u>55,978</u>	<u>25,978</u>
Other Revenues:				
Interest Earnings	6,875	6,875	13,882	7,007
Road Impact Fees	45,000	45,000	97,289	52,289
Park Impact Fees	40,000	40,000	73,697	33,697
Miscellaneous Revenue	85,500	85,500	135,805	50,305
Transfers From Other Funds	50,000	50,000	-	(50,000)
Surplus Class B & C Funds	80,000	80,000	-	(80,000)
	<u>307,375</u>	<u>307,375</u>	<u>320,673</u>	<u>13,298</u>
Total Revenues	<u>\$ 1,177,224</u>	<u>\$ 1,177,224</u>	<u>\$ 1,262,102</u>	<u>\$ 84,878</u>

(continued)

MORGAN CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Expenditures:				
General Government:				
Administrative	\$ 188,190	\$ 178,190	\$ 168,493	\$ 9,697
Court	23,238	31,238	29,521	1,717
Economic Development	10,000	3,000	1,729	1,271
Non-Departmental	41,556	41,556	36,012	5,544
Buildings	102,109	102,109	88,647	13,462
	<u>365,093</u>	<u>356,093</u>	<u>324,402</u>	<u>31,691</u>
Public Safety:				
Police Department	162,450	162,450	162,672	(222)
Fire Department	30,290	30,290	29,786	504
Ambulance	40,000	48,000	46,178	1,822
Animal Control	27,000	27,000	26,866	134
	<u>259,740</u>	<u>267,740</u>	<u>265,502</u>	<u>2,238</u>
Public Works				
Building Inspection	101,810	101,810	93,285	8,525
Road Department	285,840	275,840	184,444	91,396
	<u>387,650</u>	<u>377,650</u>	<u>277,729</u>	<u>99,921</u>
Parks	59,963	69,963	65,776	4,187
Recreation	3,707	4,707	4,607	100
Cemetery	91,571	91,571	64,555	27,016
Shop	9,500	9,500	6,083	3,417
Total Expenditures	<u>1,177,224</u>	<u>1,177,224</u>	<u>1,008,654</u>	<u>168,570</u>
Other financing sources (uses):				
Operating transfers in (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>-</u>	<u>253,448</u>	<u>253,448</u>
Fund Balance - July 1	<u>459,831</u>	<u>459,831</u>	<u>459,831</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 459,831</u>	<u>\$ 459,831</u>	<u>\$ 713,279</u>	<u>\$ 253,448</u>

A vertical dashed line consisting of 18 short horizontal segments is located on the left side of the page.

SUPPLEMENTARY INFORMATION

**MORGAN CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2005**

	<u>Capital Projects</u>	<u>RDA</u>	<u>Perpetual Care</u>	<u>Utility Enhancement</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash	\$ 5,891	\$ 43,727	\$ 195,945	\$ 50	\$ 245,613
Accounts Receivable	-	-	29,873	-	29,873
Accounts Receivable - Intergovernmental	-	56	-	-	56
TOTAL ASSETS	<u>\$ 5,891</u>	<u>\$ 43,783</u>	<u>\$ 225,818</u>	<u>\$ 50</u>	<u>\$ 275,542</u>
FUND BALANCES					
Reserved for:					
Redevelopment	\$ -	\$ 43,783	\$ -	\$ -	\$ 43,783
Perpetual Care	-	-	225,818	-	225,818
Unreserved	<u>5,891</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>5,941</u>
TOTAL FUND BALANCES	<u>\$ 5,891</u>	<u>\$ 43,783</u>	<u>\$ 225,818</u>	<u>\$ 50</u>	<u>\$ 275,542</u>

MORGAN CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Capital Projects	RDA	Perpetual Care	Utility Enhancement	Total Nonmajor Governmental Funds
REVENUES					
Taxes	\$ -	\$ 46,974	\$ -	\$ -	\$ 46,974
Charges for services	-	-	15,216	50	15,266
Interest	-	250	5,260	-	5,510
Total Revenues	-	47,224	20,476	50	67,750
EXPENDITURES					
Current Operating:					
General Government	-	1,576	-	-	1,576
Miscellaneous	-	60,000	-	-	60,000
Debt Service:					
Principal	-	-	-	-	-
Interest	11,834	-	-	-	11,834
Capital Outlay	-	-	24,795	-	24,795
Total Expenditures	11,834	61,576	24,795	-	98,205
Excess of Revenues Over (Under) Expenditures	(11,834)	(14,352)	(4,319)	50	(30,455)
OTHER FINANCING SOURCES (USES)					
Transfers-In	-	-	-	-	-
Transfers-Out	-	-	-	-	-
Net Change in Fund Balances	(11,834)	(14,352)	(4,319)	50	(30,455)
Fund Balances at Beginning of Year	17,725	58,135	230,137	-	305,997
Fund Balances at End of Year	\$ 5,891	\$ 43,783	\$ 225,818	\$ 50	\$ 275,542

Major

2005

2005

2005

MORGAN CITY, UTAH

**GOVERNMENT AUDITING STANDARDS,
OMB CIRCULAR A-133 AND OTHER REQUIRED REPORTS**

YEAR ENDED JUNE 30, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
Morgan City, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Morgan City, Utah, as of and for the year ended June 30, 2005, which collectively comprise Morgan City, Utah's basic financial statements and have issued our report thereon dated October 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morgan City, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morgan City, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Honorable Mayor and City Council
Page 2

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wood Richards & Associates

Ogden, Utah
October 11, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council
Morgan City, Utah

Compliance

We have audited the compliance of Morgan City, Utah, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Morgan City, Utah's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Morgan City, Utah's management. Our responsibility is to express an opinion on Morgan City, Utah's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morgan City, Utah's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Morgan City, Utah's compliance with those requirements.

In our opinion, Morgan City, Utah, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Financial Reporting

The management of Morgan City, Utah, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations,

contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Morgan City, Utah's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Morgan City, Utah, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 11, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Morgan City, Utah's, basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wood Richards & Associates

October 11, 2005

MORGAN CITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/Grantor Pass Through/Grantor Program Title	Federal CFDA Number	Pass-through Entity Number	Federal Award Expended	Major Program
Major Programs:				
U.S. Department of Agriculture				
Rural Development Loan	10.760	N/A	166,280	X
Grant	10.760	N/A	<u>323,601</u>	X
Total Department of Agriculture			<u>489,881</u>	
U. S. Department of Housing and Urban Development:				
Passed through Utah State Department Of Community and Economic Development				
Community Development Block Grant	14.228	N/A	<u>40,000</u>	
Total Expenditures of Federal Awards			<u>\$ 529,881</u>	

See Accompanying Notes.

MORGAN CITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Morgan City and is presented on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All federal financial awards received directly from federal agencies as well as federal financial awards passed through from other governmental agencies are included in these schedules.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

- A. Basis of Presentation – The information in the Schedule is presented in accordance with OMB Circular A-133.

Federal Awards – Pursuant to OMB Circular A-133, federal awards are defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, non-monetary federal awards, including federal surplus property, is included in federal awards and, therefore, is reported on the Schedule. Federal awards do not include direct federal cash assistance to individuals. Solicited contracts between the State and Federal Government for which the Federal Government procures tangible goods or services are not considered to be federal awards.

Type A and Type B Programs – OMB Circular A-133 establish the levels of expenditures or expenses to be used in defining Type A and Type B federal awards programs. Type A program threshold in 2005 was \$300,000.

- B. Reporting Entity – The reporting entity is fully described in the footnotes of the Morgan City's financial statements. The schedule includes all federal awards programs administered by Morgan City for the year ended June 30, 2005.

- C. Basis of Accounting – The expenditures in the Schedule are recognized as incurred based on the modified accrual basis of accounting and the cost accounting principles contained in OMB Circular A-87, *Cost Principles of State and Local Governments*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

MORGAN CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Section I – Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unqualified
Internal control over financial reporting:
Material weakness(es) identified? _____ yes X no
Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X none
Noncompliance material to financial
statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____ yes X no
Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X none
Type of auditors' report issued on compliance
for major programs: Unqualified
Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? _____ yes X no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

10.760 Utah Department of Agriculture

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000
Auditee qualified as low-risk auditee? _____ yes X no

**MORGAN CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section II – Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

There were no reportable conditions or material weaknesses noted during our audit. Accordingly, no such matters are reported.

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs noted during our audit. Accordingly, no such matters are reported.

INDEPENDENT AUDITOR'S REPORT
STATE OF UTAH LEGAL COMPLIANCE

The Honorable Mayor and City Council
Morgan City, Utah

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Morgan City, Utah, for the year ended June 30, 2005 and have issued our report thereon dated October 11, 2005. As part of our audit, we have audited Morgan City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major assistance programs from the State of Utah.

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City did not receive any nonmajor State grants during the year ended June 30, 2005.

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation & Property
Tax Limitations

Liquor Law Enforcement
Justice Court
B & C Road Funds
Other General Compliance Issues
Uniform Building Code Standards
Impact Fees

The management of Morgan City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

Independent Auditor's Report on State Legal Compliance
Page 2

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Morgan City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Wood Richards & Associates

October 11, 2005

Wood · Richards

AND ASSOCIATES P.C.

Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

October 11, 2005

Honorable Mayor and City Council
Morgan City, Utah

We have recently completed our audit of the basic financial statements of Morgan City for the year ended June 30, 2005. During our audit we noted the following items for your consideration:

1. State law requires that expenditures not be incurred in excess of the appropriation for any department. We noted that one department had expenditures over budget. We recommend you limit expenditures or open the budget late in the year to provide for these variances.
2. State law requires that the general fund balance not exceed 18% of the total estimated revenue of the general fund. The current unreserved general fund balance is in excess of this limitation. We recommend you make necessary budget adjustments to comply with this provision.
3. Impact fees – The City has completed the necessary plans and analysis on all impact fees except the sewer fees. We recommend you complete this analysis and implement it.
4. State law requires that every public treasurer secure a fidelity bond, based on the previous year's budgeted gross revenues, which includes all funds collected or handled by the public treasurer. The current bond does not meet this criterion. We recommend that you increase the bond amount to meet the required criterion.

We appreciate the cooperation we received during the course of our audit.

Sincerely,

Wood Richards & Associates

Wood, Richards & Associates, PC

CERTIFIED PUBLIC ACCOUNTANTS



Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

October 11, 2005

Honorable Mayor and City Council
Morgan City, Utah

We have recently completed our audit of the basic financial statements of Morgan City for the year ended June 30, 2005. During our audit we noted the following items for your consideration:

1. State law requires that expenditures not be incurred in excess of the appropriation for any department. We noted that one department had expenditures over budget. We recommend you limit expenditures or open the budget late in the year to provide for these variances.
2. State law requires that the general fund balance not exceed 18% of the total estimated revenue of the general fund. The current unreserved general fund balance is in excess of this limitation. We recommend you make necessary budget adjustments to comply with this provision.
3. Impact fees – The City has completed the necessary plans and analysis on all impact fees except the sewer fees. We recommend you complete this analysis and implement it.
4. State law requires that every public treasurer secure a fidelity bond, based on the previous year's budgeted gross revenues, which includes all funds collected or handled by the public treasurer. The current bond does not meet this criterion. We recommend that you increase the bond amount to meet the required criterion.

We appreciate the cooperation we received during the course of our audit.

Sincerely,

Wood Richards & Associates

Wood, Richards & Associates, PC

CERTIFIED PUBLIC ACCOUNTANTS

2490 Wall Avenue Ogden, Utah 84401 Phone (801) 621-0440 Fax (801) 399-9264